

VZCZCXRO0250
PP RUEHBZ RUEH DU RUEHGI RUEHJO RUEHMA RUEHMR RUEHPA RUEHRN RUEHTRO
DE RUEHDK #1318/01 3181715
ZNR UUUUU ZZH
P 131715Z NOV 08
FM AMEMBASSY DAKAR
TO RUEHC/SECSTATE WASHDC PRIORITY 1433
INFO RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDO/USDOC WASHDC
RUEHLMC/MCC WASHDC
RHEHNSC/NSC WASHDC
RUEHZO/AFRICAN UNION COLLECTIVE

UNCLAS SECTION 01 OF 03 DAKAR 001318

SIPDIS

DEPT FOR EBB/IFD/ODF, AF/EPS AND AF/W
TREASURY FOR RKLEIN, RHALL AND DPETERS

E.O. 12958: N/A
TAGS: [EFIN](#) [ECON](#) [EAID](#) [EMIN](#) [SG](#)
SUBJECT: GLOBAL FINANCIAL CRISIS IMPACT ON SENEGAL

REF: DAKAR 1298 (NOTAL)

DAKAR 00001318 001.2 OF 003

¶1. Summary: As the White House prepares to host the G-20 Summit to address current risks to the global economy, the likely impact on Senegal of the financial crisis is mixed. Neither Senegal nor the central bank of the Franc CFA monetary zone are holding the sophisticated mortgage and debt instruments that triggered the crisis. However, there is tremendous concern about the local impact of global economic slowdown, particularly in Europe and the U.S. In typically understated manner, the IMF told donors recently that Senegal "could witness a significant toll" from the global crisis. Senegal is already facing a serious liquidity shortage for both the private sector and much-needed government financing. Local experts believe that in the medium term, Senegal could experience a considerable drop in the flow of foreign direct investment. It is likely that decreases in remittances from abroad will increase poverty rates throughout the country. President Wade has criticized the summit for not including more African representation, and has expressed concern that the Western response to the crisis will reduce assistance to Africa. End summary.

LITTLE WORRY FROM "TOXIC" DEBT INSTRUMENTS

¶2. Among Econ Section interlocutors, including senior Ministry of Finance officials and the President of Senegal's Professional Bankers' Association, the impact of the world financial crisis in Senegal and the Franc CFA zone of the West African Economic and Monetary Union (WAEMU) would be weak, if not nonexistent with regard to mortgage-backed assets, derivatives, and other sophisticated financial instruments. Senegalese banks hold very little, if any, of those types of assets, nor have they created similar products or credit swaps for local investors. According to Ms. Khady Sy, Director of the BRVM (the regional stock exchange), the immediate effects of the financial crisis should be minimal since WAEMU's financial market is not as sophisticated as the markets in the US and Europe, especially when it comes to the securitization of mortgage bonds.

¶3. Since September 1, the BRVM 10, which is the index of the exchange's top 10 firms, has risen 23 percent and posted generally positive daily results. Bonds have been increasingly popular with WAEMU investors. Sy noted that several foreign investors are participating actively in the growth of the BRVM because of high-performing yields of 5-15 percent and investor protection because of the listed firms' weak integration into the world economy. [Note: the BRVM is a very small exchange with 38 companies from the region currently listed. Stock market capitalization is approximately USD 6.7 billion, and its bond holdings are approximately USD 1 billion. End note.]

¶4. Pierre Ndiaye, Director of Research at the WAMEU central bank, the BCEAO, noted that the BCEAO has not predicted any direct major risks from the crisis. According to Ndiaye, "the lack of integration of WAEMU's financial system in the rest of the world has been an advantage for local and banks and the BCEAO." Ndiaye argued that in contrast to large Western banks, Senegalese banks are neither engaged in high-risk lending systems nor significantly involved in a system of inter-bank loans.

ACCESS TO CREDIT

¶5. The most immediate impact for Senegal has been the resulting credit crunch. As noted in Reftel and previous reports, the GOS needs to find new financing to close a serious budget deficit. Ministry of Finance officials have confirmed that to date they have been unable to secure significant financing from local banks due to an overall drought in liquidity. Even where new credit might be available outside the WAMEU zone, Senegal does not have much room to maneuver since, under its Policy Support Instrument (PSI) program with the IMF, the government agreed to not secure any new non-concessional loans. The higher cost of credit could also slow new and existing private investment projects, and also for Dakar's new toll road, which is uniquely authorized non-concessional financing under the PSI.

¶6. According to contacts at Dakar's regional Citibank office, local liquidity is currently severely restricted, due in part to contractions in access to global credit for local affiliates of international banks. A larger problem for local liquidity however is the GOS's current budget crisis and arrears to the private sector, which has already sucked up most of the available local credit. The GOS is reportedly calling on some local banks accelerate repayment of existing debt holdings in order to make more funds available in the market.

DAKAR 00001318 002.2 OF 003

SLOWING OF INVESTMENT

¶7. Tighter credit and slowing global economic output are already impacting investment in Senegal. The BCEAO's NDiaye stated that "Senegal's GDP growth will suffer because foreign investment will dry up as a result of the crisis." Commercial Attaches at diplomatic missions have noted that many current private projects have already scaled back investment and extended completion dates. A Canadian diplomat noted that a broad range of mining firms are facing immediate liquidity problems as well as diminishing demand. AcerMittal has reportedly slowed work on its USD 2 billion-plus investment in new iron ore mines and related infrastructure. [Note: our Canadian colleague also noted that mining companies with excess liquidity are currently "on a shopping spree," buying up suddenly weakened competitors both in Senegal and globally. End note.]

¶8. Since Senegal is not an exporter of oil or other commodities whose price will likely continue to fall in the near term, the country may avoid the drastic drops in economic output and foreign exchange earnings that will likely impact other African countries. However, our Citibank contact expects that an even more significant drop in investment and financing could happen in late 2009 and 2010, as the repercussions of the major economy slowdown begin to hit the developing world.

AN ECONOMY RELIANT ON REMITTANCES

¶9. NDiaye and others have noted that higher unemployment in Europe, North America and other places could result in a significant decline of remittances to Senegal. Though it is premature to tell how much remittances from the estimated one million Senegalese living abroad have already decreased, Abdou Fall, Manager of the Western Union in Medina (Dakar's most populated neighborhood) said the remittances are diminishing: "we used to receive 250 to 300 customers per day, but recently the number has been falling to 50 customers per day."

¶10. On November 7, Johannes Mueller, the head of the IMF's PSI review mission told donors that they will likely decrease their 2008 and 2009 estimates for remittances. Mr. Sogue Diarisso, the

Director of the GOS's main economic research and policy bureau (DPEE), explained that formal remittances, which have been estimated at more than USD 1 billion per year, account for ten percent of Senegal's GDP. An estimated nine percent of Senegalese families receive these transfers directly, and a significant reduction in available funds will lead to a marked increase in poverty. With informal remittances estimated to total almost as much as formal transfers, economic constriction and job losses in the U.S. and Europe will have a noticeably negative impact on Senegal's GDP and poverty rates.

CONCERNS ABOUT FALLING ASSISTANCE LEVELS

¶11. The BCEAO's NDiaye and many other contacts and commentators have are worried about an expected decline of foreign assistance (grants, loans, and project assistance) if the crisis continues in the medium term -- because of the large budget commitments by western governments to restructure their banking sectors and prop up their economies. In particular, according to Ndiaye, the decrease of donor assistance from abroad "would threaten Senegal's economic and social programs to improve health, education and infrastructure projects, given that Senegal is among one of Africa's top recipients of foreign aid." The IMF's Mueller noted a similar apprehension, and directly linked reduced aid flows to lower medium-term economic growth forecast.

¶12. President Wade has publicly criticized President Bush's November 15 G-20 Summit on the global financial crisis for not including a broader representation of African leaders. In addition, Wade recently asserted that "the African continent is not worried about the crisis, but our major concerns are how to survive and improve our living conditions -- build our agriculture and road infrastructure projects when the West is disbursing several billion dollars to support its financial system and its economy."

COMMENT

¶13. The WAMEU zone should remain fairly well isolated from the direct impact of firms and institutions holding "toxic paper," but Senegal remains vulnerable in a number of ways to a global downturn. Senegal's current budget crisis and large internal debt will make it even more difficult for the Wade administration to respond to the threat of a slowing economy and increasing poverty.

DAKAR 00001318 003.2 OF 003

BERNICAT